Speech by the President of the European Parliament Martin Schulz to the European Council of 27 June 2013

Ladies and gentlemen,

Ordinary people are increasingly losing faith in the ability and the willingness of democratic institutions to take action.

At the start of the crisis a promise was made: although taxpayers' money would have to be used to bail out the banks, in return everything possible would be done to ensure that this crisis would be the last.

Citizens have kept their side of the bargain: they are supporting the banks with their taxes and standing behind other nations by providing guarantees. In many EU countries people have been forced to accept drastic pay and pension cuts. Minimum wages have been slashed. Workers' rights have been done away with. Unemployment has skyrocketed. The consolidation programmes may be necessary, but in some cases they have imposed too great a burden on society. Ordinary people have borne the costs of the crisis.

But what exactly has been done to honour the promises made at G-20 summits and European Council meetings? All the promises to ensure that financial products and financial markets would once again be subject to proper regulation and scrutiny; to scale down systemically relevant banks; to make speculators pay their fair share of the cost of resolving the crisis; and to boost the economy once again? These measures have been talked about so much that one might easily get the impression that they have long since been implemented. But is that really the case?

Please allow me to address a number of topics which have become tests of our credibility.

First test of credibility: banking union. The European Parliament is extremely concerned at the delays in establishing a banking union, which was intended to achieve three objectives:

– the banking sector would be supervised more effectively;

– failed banks would no longer be bailed out with taxpayers' money, out of a fear of causing domino effects;

– and the vicious circle of bank debt and sovereign debt would be broken.

Without a banking union we cannot win back public faith, placate the markets, guarantee sustainable economic development and generate growth. If there are still people who doubt that we need these instruments as a matter of urgency, I would urge them to listen to the recordings of in-house telephone conversations at Anglo-Irish Bank which have recently been made public. They bear witness to cynicism, hubris and arrogance. Against the background of the painful sacrifices made by the Irish people and the solidarity shown by ordinary people throughout the EU, there is something genuinely repulsive about the complete lack of compunction which these bankers displayed in seeking only to maximise their own profit at the expense of society and in seeing themselves as above the law. Their mocking of the credulity of the state lays their lack of understanding bare.

In the early hours of this morning the EU Finance Ministers finally reached agreement on the resolution of failed banks. After months of stalling tactics this at least is good news. The lack of ambition is strange, however: rather than breaking the vicious circle of bank debt and sovereign debt once and for all, the link has merely been weakened. We support the bail-in of shareholders, holders of bank bonds and customers with deposits of more than EUR 100 000 in a liability cascade. However, watering down this agreement once again by granting national derogations makes no sense.

The Council can therefore look forward to tough negotiations with the European Parliament, because we intend to make sure that no more banks have to be bailed out with taxpayer's money, that all EU citizens enjoy the same degree of legal certainty and that an arbitrary approach to regulation does not jeopardise the internal market.

We are concerned about delays in the direct recapitalisation of banks through the European Stability Mechanism. As long ago as in June 2012, the Heads of Government of the eurozone countries reached agreement here in Brussels on the direct recapitalisation of banks through the ESM. In December 2012 you agreed to draw up practical arrangements for this recapitalisation in the first half of 2013. But hitherto ambitions do not match the actual scale of the problem: the ESM is to be given funding of EUR 60 billion for bank recapitalisation, but according to reliable estimates the bad loans on bank balance sheets amount to more than EUR 1 trillion.

Had these instruments been available at the time, the Cyprus crisis could probably have been averted. If banks collapse in one MemberState this creates a problem for all of us in Europe – hence the need for European solutions.

Second test of credibility: investment in growth and jobs. Likewise in June 2012 you reached agreement on a Growth and Jobs Pact, with a budget of EUR 120 billion, a step which we in the European Parliament warmly welcomed and supported. But where are the tangible results? Where is the evidence that the pact is being implemented in the Member States? The EU is not a federal state, but instead relies on the Member States to implement the measures jointly agreed by you, the Heads of Government. So just how, exactly, is the pact being implemented? I would put a similar question to the Commission: where are the practical measures? We hope that the fact that no bills have yet been submitted to the Commission does not mean that no money has been released. Not even we, as legislators, know whether money has been spent and, if so, for what purposes. The Growth and Jobs Pact looks less like a coherent stimulus package funded to the tune of EUR 120 billion, and more like a hotchpotch of measures, some of which already exist and some of which do not. It puts me in mind of the fate of the European Economic Recovery Plan, proposed by the Commission in 2008, for the EU and the MemberStates to inject EUR 200 billion into the economy with immediate effect. EUR 5 billion, and no more, was to be taken from the EU budget to finance trans-European energy networks and investments in broadband infrastructure. The sums in question were committed, but it would seem that only a tiny number of actual bills for actual projects have been submitted, for the simple reason that in recent years the appropriations available have regularly been used for other purposes. The way the Economic Recovery Plan has been implemented can be summed up in one word: pitiful. Will the 'investment plan' you agree on here today suffer the same fate?

Against this background, you will understand why I am now urging you to tackle the youth employment initiative in a serious way. The fight against youth unemployment is our third test of credibility.

In my very first speech to the European Council on 31 January 2012 I already drew your attention to the fact that five million 15 to 24-year-olds were jobless in Europe and that there was a danger of an entire generation growing up with no real prospects. At the subsequent Spring Summit, on 2 March 2012, I urged you to make funding available quickly for education and training, in an effort to ensure that this generation's talents and motivation are not wasted. I have repeatedly called on you to introduce job guarantees, to work with the social partners to create apprenticeships and to improve mobility in the internal market by recognising qualifications and providing language training. It is simply unacceptable that young people should be paying with their life chances for a crisis for which they are entirely blameless.

In January this year, as it had done in July 2010 and May 2012, the European Parliament called once again – this time with 546 votes in favour – for the introduction of a Youth Job Guarantee. After a deep shock of one and a half years, the European Council has finally realised that we are indeed faced with a huge challenge. Releasing EUR 6 billion to fund this new youth employment initiative is a start; but, as we are all only too well aware, that six billion is just a drop in the ocean. According to International Labour Organisation estimates, EUR 21 billion will be needed to implement the Youth Job Guarantee properly. We are therefore keen to provide further funding and we want to see the Structural Fund resources which are now available reallocated and full use made of the EUR 60 billion already earmarked for this purpose by the EIB in the context of the Growth and Jobs Pact. In recent discussions of these plans there has been an audible undertone of hope that the EIB could perhaps be the new wonder weapon, one which can miraculously provide money previously thought not to exist. Others are concerned that through its involvement the EIB might lose its triple-A rating. Whatever our views, we should not lose sight of the fact that the EIB is not a normal bank. As a publicly owned

financing institution, the EIB's role must be to provide loans in exactly those situations where normal banks are unable to do so.

Ladies and gentlemen,

We have no time to lose. We have to act now. This is why we the Members of the European Parliament, have insisted on frontloading the EUR 6 billion in the first years of the multiannual financial framework. We agree with you on that point. For this to be possible, however, we need flexibility within the multiannual financial framework, yet in the budget negotiations you yourselves have denied us just that flexibility. Luckily, we reached an agreement this morning. As you can see, this flexibility is not needed just to overcome insignificant technical problems; what is at stake is our ability to take action at European level when we need to devise, as a matter of urgency, measures to safeguard the livelihoods of ordinary Europeans.

Of course, releasing the EUR 6 billion will not in itself be enough to solve the problem. What we, the current generation of politicians, owe these young people are good ideas, courage and prompt action – in order to generate growth at long last. After all, the most effective means of creating jobs – and thus of combating youth unemployment – is economic growth.

At a series of summits you have discussed measures which could be taken to generate growth in Europe at long last. Implementing these measures quickly will be the fourth test of our credibility.

– First measure to stimulate growth: the strengthening of the internal market in services and the digital economy. Red tape is still preventing SMEs in particular from providing a full range of cross-border services. Although the Services Directive has been approved by all the Member States, many countries still apply national rules which are at odds with its provisions. How are SMEs supposed to cope with piecemeal laws of this kind? What incentive do they have to provide more services on a cross-border basis and thus boost the economy? When it comes to the digital economy, the picture is no different: in the run-up to this summit President Barroso told us that if the Digital Agenda were to be implemented in full, EU GDP could increase by 5 % over the next few years. We want to take advantage of this great opportunity!

– Second measure to stimulate growth: free trade agreements, for example with the USA. The Transatlantic Trade and Investment Partnership can help to create high-quality jobs on both sides of the Atlantic and can boost economic growth without help from the taxpayer. According to Commission estimates, over the period to 2027 an agreement of this kind would generate each year additional growth equivalent to 0.5 % of EU GDP.

– Third measure to stimulate growth: targeted support for SMEs must have top priority – after all, they provide most of the jobs in Europe. The agreement reached last week between the European Parliament and the Council on the COSME programme is a step in the right direction. On the basis of its budget of EUR 2.3 billion for the period from 2014 to 2020, the forecasts are that the programme will provide support for 40 000 SMEs every year and create 30 000 jobs. The Members of the European Parliament had been hoping to see the programme given a larger budget, however – 99% of European businesses are SMEs and they are the driving force behind the European economy. In future, therefore, we should take a bolder approach to the issue of supporting our SMEs and see them as a key component of the solution to our current economic problems. An EU programme for SMEs, operated through the European Investment Bank, could offer worthwhile support to firms in Spain, Greece and elsewhere, support which could enable them to bring countless promising projects to fruition in the industries of the future, such as renewable energies or medical infrastructure.

– Fourth measure to stimulate growth: a return to normal lending. Firms in the countries hardest hit by the crisis are finding it particularly difficult to secure loans. If they can secure them at all, they often pay twice or three times as much interest as their counterparts in other EU Member States, undermining their competitiveness and cancelling out the advantages achieved through reductions in unit labour costs.

For its part, the ECB must make sure that the cheap money policy genuinely benefits the real economy. Working together with the European legislative authority, the ECB must also do more to ensure that the banks, some of which have been bailed out with public money, actually pass on the

benefits of low interest rates to SMEs, rather than exploiting the cheap rates in order to line their pockets by making only risk-free investments and engaging in speculation at the expense of European savers. How much longer are we going to tolerate this?

Ladies and gentlemen,

The European Parliament is very concerned that decisions on the future development of Economic and Monetary Union have been put off once again. This is the fifth test of our credibility. My fellow MEPs have asked me to convey to you their serious concern at the fact that the issue of democratic accountability in our Economic and Monetary Union has thus far been completely ignored. We are convinced that in an Economic and Monetary Union sound, democratically legitimate decisions can only be taken on the basis of the Community method.

In that connection, we should like to remind you once again that under the Treaties the European Council does not have the right to propose legislation. It is not your task to issue the Commission with instructions regarding the form and content of legislative proposals. This arrogation of rights by the European Council is undermining the division of powers within the European Union and, by extension, undermining our European democracy.

Let me address these remarks directly to you, President Barroso: it is the Commission's task to put forward legislative proposals. We strongly urge the Commission, therefore, to prepare a catalogue of convergence measures with the aim of endowing the Economic and Monetary Union with a strong social policy pillar. The European Parliament has been calling for measures such as this for quite some time, and we will continue to fight for them, in the interests of ordinary Europeans.

Please allow me to remind you once again that the European Stability Mechanism must also be managed in accordance with the Community method and that the people who manage it must be accountable to the European Parliament – in keeping with the written assurances we have received. The EU's role in the Troika must also be subject to democratic scrutiny by the European Parliament.

Ladies and gentlemen,

I have noted that in June 2014 you intend to draw up the strategic guidelines for legislative planning concerning the area of freedom, security and justice and thus reach a decision on the successor to the Stockholm Programme. The European Parliament is very concerned at the choice of date, given that this important decision will coincide with the European elections. I hope you will agree with me that the European Parliament, as co-legislator, must be given the chance to play a proper role in this legislative planning process and that we must reach an agreement to that effect.

Ladies and gentlemen,

This morning President Barroso, Prime Minister Kenny and I reached a compromise on the multiannual financial framework. This is good news for people and businesses in Europe. The Parliament's insistence on flexibility means that through the agreement reached on the MFF money promised to the European citizens will actually be spent. In addition, we also succeeded in securing additional funds for our priorities such as the fight against youth unemployment, research and investments in SMEs for the years 2014 and 2015 and at the same time create more room for manoeuvre for increasing funds as of 2016. That is proof for our credibility. I want to thank all negotiators for their commitment. Now it is up to you to ensure that this compromise wins the support of the Council and that a binding agreement can be reached on the amending budget by 9 July.

Thank you for your attention.